

**From:** Gudrun Thompson [gthompson@selcnc.org]  
**Sent:** 10/25/2017 4:59:03 PM  
**To:** Tarr, Jeremy M [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=98859532088e4437968231eb6fef6b70-jmtarr1]  
**Subject:** [External] RE: 14%  
**Attachments:** IEEFA, Risks-Associated-With-Natural-Gas-Pipeline-Expansion-in-Appalachia-\_April-2016.2.pdf

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Jeremy,

Apologies for the delay in getting back to you. There's a report from the Institute for Energy Economics and Financial Analysis that does a much better job of explaining this than I could. Here's the relevant excerpt, from p. 10

State regulatory commissions also have a role in approving the pass-through of the costs of pipeline contracts to the rates of regulated utility customers. The cost of shipping natural gas on a pipeline, including the return on equity for the pipeline company, is an operating cost for the end-use utility and is therefore a cost that is passed through to utility customers, as long as the state commission agrees that this cost has been prudently incurred. A commission could disallow all or part of the costs paid pursuant to a natural gas contract if the commission finds that such costs were not prudently incurred (for example, if the utility knowingly contracted for too much capacity or failed to secure a lower-priced contract). The commission would have to find that the utility's decision at the time of entering into the contract was imprudent, not that the contract turned out to be expensive for ratepayers in hindsight.

Such a potential disallowance would of course occur after the pipeline has been placed into service. In the absence of affiliate contracts, utilities have no incentive not to enter into prudent contracts with third-party suppliers. The transaction structure in which a regulated utility contracts to ship gas on a pipeline developed by an affiliate company is a relatively recent development that tends to shift risk from shareholders to ratepayers. It is not yet clear whether state public utilities commissions will scrutinize pipeline capacity procured under such contracts more closely in rate-making. Additionally, if a state commission believes that a pipeline is earning excessive returns, it can challenge the pipeline's rates at FERC (as described above) but it does not have authority to alter recourse or negotiated rates.

I've attached a copy of the report, which is worth a read.

Please let me know if you have questions or need more information.

Best regards,

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**From:** Tarr, Jeremy M [jeremy.tarr@nc.gov]  
**Sent:** Wednesday, October 25, 2017 8:42 AM  
**To:** Gudrun Thompson  
**Subject:** 14%

Thank you for talking yesterday. Would the 14% return on equity for the ACP be collected through NC electricity bills?

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